STATE OF RHODE ISLAND
AND PROVIDENCE PLANTATIONS

OFFICE OF THE HEALTH INSURANCE COMMISSIONER

IN RE:	BLUE CROSS & BLUE SHIELD OF	:
	RHODE ISLAND CLASS DIR	:
	NOVEMBER 15, 2007	:

PRE-FILED DIRECT TESTIMONY OF
AUGUSTINE MANOCCHIA, MD

Q. Please state your name, title and area of responsibility.

A. Augustine Manocchia, MD, Chief Medical Officer ("CMO") of Blue Cross & Blue Shield of Rhode Island ("Blue Cross"). I report directly to the Senior Vice President of External Affairs. My responsibilities involve management of all aspects of Provider Relations and the Medical Policy team. Up until 2 months ago, I also oversaw all of our Medical Management Department. I have been CMO of Blue Cross since June of 2006. Prior to that, I had been employed for 4 years with Blue Cross with increasing responsibilities, principally in the Utilization Management area. Prior to being employed with Blue Cross, I was in private Primary Care practice in Rhode Island.

Q. Does Blue Cross provide any medical management programs for the Direct Pay population and are they designed to address affordability principles enuciated by the OHIC?

A. Yes. As a part of our existing and ongoing efforts, Blue Cross' Medical Management program continues to evolve towards a care continuum centered on the member. While the goal remains to provide our members access to high quality and appropriate health care, we continue to evaluate and modify our programs and processes that support our efforts toward affordability. Our Health Management and Integration Division is staffed by clinical (Nurses, Social Workers, Dieticians, and Board Certified Physicians) and non-clinical (support)

personnel whose work has met national standards for performance excellence set by the American Accreditation HealthCare Commission/URAC and National Committee on Quality Assurance ("NCQA").

Our Utilization Management and Medical Policy processes facilitate the use of the least costly, most appropriate setting and use of evidence based medicine, respectively. Chronically ill members are assessed, stratified and actively managed through our Health Management programs. Our Provider Profiling program also promotes cost effective use of resources. Last, our Pay for Performance programs, including Quality Counts, and participation in statewide efforts to promote primary care demonstrate our support for this important element of the health care delivery system. Collectively, these health management programs are available to all members, including our Direct Pay members.

Q. Can you provide a detailed description of these programs, as well as programs being planned for the future?

A. Certainly. **Utilization review** functions ensure claims are paid only for services which are actually rendered, billed in compliance with applicable subscriber agreements, and medically necessary. Additionally, these functions ensure that services are rendered in the most cost effective settings available, in keeping with the definition of medical necessity included in the subscriber contract.

The majority of utilization review is prospective or concurrent. This is done onsite at selected facilities and telephonically for others and includes review of services such as inpatient hospitalizations, rehabilitation, and out of network requests. Registered nurses conduct the review process in order to ensure our members are being efficiently managed throughout the continuum of healthcare. InterQual is a nationally recognized criteria utilized by more than 2,500

hospitals including the Hospital Association of Rhode Island. It is used as a screening tool for the nurses to determine the appropriate level of care for the member and make appropriate referrals to Blue Cross' Medical Director. As a result of the review process, reimbursement to a facility may be reduced or denied. During the review process, in addition to monitoring the length of stay, our nurses proactively identify and coordinate the members discharge needs. In fact, we have a dedicated team of nurses and other support staff who help our hospitals with discharge planning by arranging for post hospital services, including transfers to skilled nursing facilities, and arranging for the delivery of necessary equipment to the home.

In the course of the utilization review process our nurses identify members who would benefit from our health management programs and make timely referrals to these programs, which will be described in further detail below.

Other utilization review activities may also include review of selected programs and the appropriateness of certain medical equipment used in the home. During the 2006 calendar year, collectively these services realized claims savings of $.96 per member per month.

Medical Policy: The Blue Cross medical policy department is responsible for reviewing requests for coverage of new technology, changes in benefits, new mandates, and requests for revision to a current policy. Medical policies help us to determine whether medical services and/or supplies are medically necessary, experimental, investigational, or cosmetic in nature. In addition, all medical policies undergo an annual review. This annual review ensures that any changes to medical criteria are addressed and our policies are up to date with current practice. Policies are developed and/or modified for several reasons, for example we may receive a request for a new policy or modification to an existing policy from providers. In addition, our Medical Directors meet monthly with our appeals staff to review appeal statistics and reasons for

overturned determinations. As part of our ongoing effort to be responsive to member concerns, if we find a consistent pattern of overturned determinations on a particular policy, the policy is reviewed again to be sure it is within current guidelines. Our policy request forms are available via paper or our website.

Participating providers are notified in writing of any new or updated policies with 60 days advanced notice. As policies are renewed and modified they are published on our provider and member websites. Currently, there are 123 policies on the member site and 190 on the provider website. These policies are available prior to member authentication. This allows non-participating providers and non-members access to our medical policies as well as our members and participating providers.

In addition to medical policies, the department is also responsible for creating and maintaining reimbursement policies. While these policies have no medical criteria, they do document our claims processing rules for certain services so providers are aware of correct billing procedures. These are also available on the provider web page. Claims savings from our medical policy process for calendar year 2006 was $1.02 per member per month.

Provider Profiling: Physician profiling is the process in which individual physicians or groups of physicians are compared to others in their same specialty with regards to total annual claims cost and overall outpatient service utilization. The data reviewed falls into several large categories, including office visit services, diagnostic imaging, laboratory testing, and surgical/procedural services. Individual providers are provided with an analysis of their practice utilization data. If an analysis detects patterns of service utilization and cost that vary significantly from the doctor's peers, and that cannot be justified, we work with the doctor to demonstrate how they can practice more efficiently and in accordance with evidence-based

guidelines. Our Provider Profiling program helps to reduce instances of medically unnecessary testing which leads to lower costs of care and ultimately to improvements in the overall quality of care provided. When providers improve their efficiency and reduce the variability in their practice, unnecessary expenditures are avoided and the quality of care may improve. Blue Cross has found this program to have a definite return on investment over the last several years. In 2006, we visited with over ninety (90) physicians as part of this process, and we sent out educational letters to another two hundred physicians. We realized $0.35 per member per month savings from this program. This amounts to an average savings of $7,000 per year for each physician educated through the program.

As an example of our work with extreme "outliers" (those physicians with utilization numbers dramatically different from that of their peers), in 2006, we visited three physicians [all general Internists] whose costs were at least three times that of their peer average. We met with them and provided them with the appropriate evidence based education to address their particular areas of concern. We have since analyzed their follow up data. That analysis shows a dramatic reduction in healthcare utilization in those practices, supporting our belief that much of the care being provided in the past would not be considered medically necessary. In fact, for the two biggest outliers of the group, extrapolating for a full year of claims data, the savings should approach $800,000.

Q. Please describe what is being done directly with members to help manage their health.

A. Blue Cross' health management programs are developed for all stages of a member's health care continuum: wellness, acute illness, chronic illness and catastrophic illness.

As a health and wellness partner, Blue Cross understands the importance of prevention-oriented activities for maintaining good health. Blue Cross offers a comprehensive suite of health management solutions to help our members live long and healthy lives. Since prevention is the first line of defense against chronic illness and rising healthcare costs, Blue Cross offers individual, provider, and community-based programs designed to help all members from newborns to seniors reduce their risk of illness.

Q. Please provide an overview of some of these programs.

A.. With the exception of the Little Steps® Prenatal Program, Blue Cross members (including Direct Pay) are automatically enrolled in these programs. In the following summaries, the number of members involved in each program are reflective of January through December 2006:

Little Steps Prenatal (2,111 enrolled): This mail-based program helps take some of the guesswork out of prenatal care. After contacting Blue Cross to enroll, participants have the opportunity to receive a 20% discount on baby safety tools, and educational materials for prenatal and newborn care. The program also focuses on the importance of recognizing and dealing with postpartum depression.

Little Steps Newborn (7,795 enrolled): The Newborn program waives copayments, if applicable, for well-baby visits during the first 15 months of life. Parents also receive a 20% discount on baby safety tools. All eligible members are automatically enrolled in this program after the child is added to the parents' insurance.

Little Steps Toddler (6,540 members): Designed for children 12 months of age, the Toddler program automatically sends parents a newsletter filled with educational materials including information on childhood immunizations and lead poisoning prevention.

Women's Health (over 40,000 mail & telephonic reminders): As women have unique health concerns, Blue Cross provides them with a comprehensive guide that delineates appropriate health screenings for their age and answers common health questions women of all ages may have about screenings and tests. This guide is sent to members who have been non-compliant for one or more health screenings. These members will also receive telephonic reminders to schedule appropriate screenings with their healthcare provider.

Men's Health (over 52,000 mail & telephonic reminders): Educational reminders on the importance of awareness and early detection are also tailored and customized to reach out to members who have been non-compliant for preventive health screens such as colorectal cancer screening.

Personal Health Assessment (PHA): This confidential questionnaire is available to all registered users on BCBSRI.com, including Direct Pay members. The PHA helps members learn more about their personal health, the lifestyle choices they make that impact their health, and their personal attitudes about health and work. Members are asked a series of questions about their health risks, medical conditions, life satisfaction, and work and lifestyle habits. Upon completion, each member immediately receives a customized Personal Health Profile that includes comprehensive, personalized information outlining his or her individual health risk and practical suggestions to help him or her lead a healthier life.

Over the past year, The Health & Wellness Institute has made significant enhancements to the functionality and member experience of the PHA. The online PHA allows participants to save and return to their PHA at a later date to complete it. Returning to complete a PHA or gaining access a PHA report on the yourPHA Wellness Portal requires only an email address and password.

Once a PHA participant completes the survey, they automatically receive a PHA report on the yourPHA Wellness Portal that is presented in an easy to use action-oriented dashboard format. The portal content presents all relevant health plan resources and is tailored to match the risks of the PHA taker to provide a comprehensive health management platform that supports the member across the entire care continuum, from prevention and healthy lifestyle programs to condition management resources.

Once the member has completed the PHA, the data is analyzed. On a weekly basis all newly completed PHAs are processed through Predictive Model algorithms. The Predictive Models identify those members who could potentially benefit from Case or Disease management interventions. The models take into consideration the presence of reported disease conditions and associated risk factors. Each week the identified member's information is forwarded to the Case and Disease Management staff who then outreaches to the member.

The yourPHA Wellness Portal empowers the individual to take greater control over their health. The resulting platform can support and enhance a wide variety of health plan product designs and employer wellness initiatives, particularly those which emphasize self-responsibility and healthcare consumerism.

Online Health Improvement Programs: Any member interested in building a healthier lifestyle can take advantage of the online health improvement programs on BCBSRI.com. These self-directed programs offer tailored information on key wellness topics such as back care, nutrition, stress management, weight management, and smoking cessation. Participants choose which topic they would like to focus on, and then complete a personalized questionnaire assessing their current health status and individual needs.

Preventive Guidelines/Healthy Reminders: We offer our members preventive care guidelines for adults and children. These easy-to-read charts list recommended immunizations, screenings, exams, and health counseling at suggested ages across the life span. These mailings are available to members via BCBSRI.com and throughout the year in Choices magazine. Recommendations are based on national standards of care and Blue Cross' own practice guidelines for providers.

Q. Please describe what Blue Cross is doing in the community to help Rhode Islanders to manage their health.

A. All too often, the amount of physical activity children receive during a school day is less than optimal for developing bodies and minds. As health and wellness advocates, we realize that helping children be more active will help them stay healthy and have more energy for learning. To assist Rhode Island teachers and parents in improving physical activity levels and reducing sedentary lifestyles, Blue Cross offers the following free programs to all Rhode Island schools.

Feelin' Good® Mileage Club (Offered during 2005/2006 school year): This teacher-led walking program helps to boost the activity level of students grades K-Five. Regular walking activity is tracked by teachers and recorded in the classroom. Participating students are rewarded with colorful tokens for every five miles of walking. The objectives of the program are to create awareness of the importance and benefits of regular physical activity for children and to teach children a fun and easy way to incorporate physical activity into their lifestyles.

Move, Groove & Improve (Offered during 2005/2006 school year): This six-week program helps to increase the activity level of children ages six to 13. Participants complete daily activity logs and a program survey to become eligible for prizes at the end of the six-week

period. This program was developed by Blue Cross in partnership with Kids First Rhode Island and the Rhode Island Department of Health. Move, Groove & Improve is available online through BCBSRI.com. The objectives of the program are to create awareness of the importance and benefits of regular physical activity for children and help participants build a habit of regular physical activity that can continue throughout their lives.

Community Wellness (Over 2,900 people serviced): Blue Cross is dedicated to improving the health of all Rhode Islanders. Community events such as Walk Rhode Island and the Blue Cross Health & Wellness Van offer screenings, flu shot clinics, physical fitness classes and events, health education, and lectures open to anyone in the Rhode Island community. The community and Wellness Van schedule is available on BCBSRI.com under the "In the Community" section.

Walk Rhode Island (Over 1,500 people registered): Since 2000, Blue Cross has sponsored Walk Rhode Island. With the goal of improving the health of Rhode Islanders, this family-focused walking event is open to anyone. Traditionally offering a 2-, 5-, and 10-mile route, it is the only non-competitive, non-fundraising walk of its kind in the State that's perfect for people of all ages and fitness levels.

Q. What has Blue Cross done to address acute and chronic illnesses?

A. In addition to the utilization review functions discussed previously, our clinical staff outreach to members that may be undergoing an elective or scheduled surgical procedure or have experienced a hospitalization. These outbound calls help us to identify any gaps or barriers to post hospital care. We can then work with the attending physician to obtain services necessary to ensure post hospital needs are met, and prevent complications. In the following summaries, the numbers referenced are reflective of Calendar year 2006.

Total Knee and Total Hip Program (1,102 contacts): A telephonic outreach program that provides counseling to members preparing for one of these surgeries, including a safety assessment of the home to support a safe recovery. The nurse follows the member through recovery.

Post Discharge Calls (4,029 contacts): Calls are made to members following discharge from an acute inpatient facility to reassess the member's needs and to ensure the discharge plan was implemented effectively.

Patient Advocates (802 visits): Nurses conduct face-to-face visits to members who are hospitalized at two in-state hospitals to assess their needs and provide information on Blue Cross' program offerings.

Chronic Illness/Disease Management: Our Health and Disease Management ("DM") Programs are developed based on claims utilization and cost drivers for inpatient and outpatient services and the likelihood that interventions can reduce further costs. These are tailored toward managing the challenges of living with a chronic condition while achieving personal best health.

Blue Cross has developed Asthma, Congestive Heart Failure, Coronary Artery Disease, Diabetes, COPD (Emphysema), and Smoking Cessation programs. We have also developed an intervention for Low Back Pain, scheduled for launch in December, 2007. Effective DM reduces complications and acute exacerbations of chronic disease while saving dollars by improving health.

Members are systematically identified through a predictive model and stratified into three levels: low, moderate, and high risk for future high costs and morbidity. Each level of stratification receives interventions appropriate for the stratification level.

- Low risk members with one of the chronic conditions receive educational and awareness materials to promote healthy lifestyle choices, nutrition, exercise, and medication compliance. Approximately 90% of our members continue to fall into this category.
- Moderate risk members with one of the chronic conditions receive telephonic outreach calls to participate in a member centric educational and self-management program with a nurse or dietician. The program length is determined by the goals established and the member progress toward the goals. Approximately 3% of members fall into this category.
- High risk members with one of the chronic conditions receive telephonic outreach calls from nurses, dieticians, and/or social workers to participate in a case management program. The program length is determined by the goals established and the member progress toward the goals. Approximately 7% of members fall into this category.

Recognizing the effect that depression can have on members trying to manage a chronic illness, during CY06, we modified all of the disease management programs to incorporate depression education with mailings, instead of administering an individual depression management program.

Asthma Program (51,000 interventions): Our Asthma Program is designed to help members better manage their disease and improve their quality of life. Members are offered education tools and resources through direct mail, newsletter articles, and the Blue Cross website. Our Asthma Program offers:

- Age-specific asthma tool kits containing self management tools and educational resources.
- Free asthma class taught by certified asthma educator.
- Quarterly provider notification of patient prescription pattern.
- Case Management Services (for those who qualify).

During 2006, we modified our processes within the asthma management program, which resulted in a net increase of approximately 31,000 (160%) mailings and/or interventions.

Coronary Artery Disease/High Cholesterol Program (22,000 interventions): This program is designed to help members, in coordination with their healthcare providers, take control of their cholesterol and coronary artery disease. Those in case management or telephonic health coaching have access to the following resources:

- Informational materials on the basics of heart disease, nutrition, physical activity and stress, and a weekly pill organizer to help with medication compliance
- Registered nurse care managers who teach participants about the basic of heart disease, medications, nutrition, exercise, and stress, in coordination with their healthcare provider
- Registered dietitians who can provide individual telephonic nutrition counseling
- For those who need extra help coordinating their care, our certified nurse and social work case managers work with the patient and healthcare provider.

Those in the mail program receive a series of mailings that includes:

- Educational materials about the basics of coronary artery disease, high blood pressure, high cholesterol, nutrition, stress, and exercise
- Recipes
- A medication tracker to increase medication compliance
- In addition, all participants are eligible for our smoking cessation programs.

Modifications in program eligibility selection resulted in a net increase of 14,000 interventions (160%) compared to CY 05.

Diabetes Program (31,000 interventions): Our Diabetes Program is designed to enhance and reinforce good self-management practices begun in the office or hospital setting. Multiple resources provide key elements for maintaining a healthy lifestyle. These resources include information about:

- Diabetes self-care, smoking cessation, and healthy living;
- Community glucose meter training and trade-in programs which are held throughout Rhode Island;
- reminders for important diabetes-related exams and tests;
- diabetes classes, which are offered through the state at various times and taught by teams of Rhode Island Certified Diabetes Outpatients Educators ("CDOEs"), including dietitians, nurses and pharmacists (copays or coinsurance may apply for these classes); and
- Individual consultation and education with CDOEs (copays or coinsurance may apply).

During 2006, we assigned dedicated health coaches as part of the stratification and intervention. Modifications of the Diabetes program in 2006 resulted in an increase of 21,000 (or 170%) interventions compared to CY 05.

Heart Failure Program (5,000 interventions): This program is designed to help members, in coordination with their healthcare providers, take control of their congestive heart failure and improve their quality of life. The program interventions include case management, telephonic health coaching, and a mail program. As stated above, depending on the severity of their illness, members are eligible for a specific intervention. All participants are eligible for our smoking cessation programs. Members in case management or telephonic health coaching have access to the following resources:

- A self-care handbook and teaching video, a digital scale, and a weekly pill organizer to help with medication compliance
- Registered nurse care managers who teach participants about the basic of heart failure, medications, nutrition and how to monitor weight and symptoms, in coordination with their healthcare provider
- Registered dietitians who provide individual telephonic nutrition counseling
- For those who need extra help coordinating their care, our certified nurse and social work case managers work with the patient and healthcare provider.

Members in the mail program receive a series of mailings that includes:

- Educational materials about the basics of heart failure, high blood pressure, high cholesterol, stress, exercise, and the importance of daily weights and a low salt diet
- Healthy Recipes

- Behavior change monitoring tools such as a medication tracker, and daily weight log sheet.

Chronic Obstructive Pulmonary Disease:

- Members identified as high risk (any emergency room visit or inpatient admission) are offered one-on-one telephonic coaching to assist them in managing their disease.
- Moderate and Low risk members receive educational mailings that highlight the diagnosis, screening and treatment of the disease.

In addition, Blue Cross offers a Telephonic SmokeFree Program (50 enrollees) that is designed to help members who smoke and who have a chronic condition (e.g. asthma, diabetes, heart disease, COPD) to quit smoking. Members can enter the program by a self referral, referral from a physician, or referral from the disease or case management program. Blue Cross promotes smoking cessation as an educational component within all of its chronic condition management materials.

- Members are screened by the Blue Cross Health Management staff and referred to the Telephonic SmokeFree Program if appropriate.
- A tobacco treatment specialist then administers an individual treatment program consisting of between seven to ten individual sessions of 20 to 30 minutes long. The member receives information about smoking cessation and an individualized plan to quit smoking.
- If pharmacotherapy is indicated, the tobacco treatment specialist may contact the member's primary care physician (if the member approves).

- The telephonic counselor follows up with the member at least 6 and 12 months post quit date for additional support and counseling if necessary.

We have observed a 48% quit rate.

Blue Cross also conducts community outreach activities to engage members in self management. Community outreach activities include such events as Asthma Classes and a Glucose Meter Exchange Program. 2006 savings for our Disease Management programs combined were $.73 per member per month.

Q. Does Blue Cross have a Case Management program and could you please describe the program?

A. Yes.

Catastrophic/ Complex Case Management Program (2834 members enrolled): Case management is a collaborative process of working with members who have complex or catastrophic events with the goals of optimizing health, enhancing quality of life and promoting cost effective care. Members are referred from several sources including providers, employers, members, utilization review nurses, claims data as well as a predictive modeling tool. Modifications of these tools resulted in a net increase of 10,000 members screened in CY06 compared to CY05. In addition, we observed a net increase of 1,100 members enrolled in our programs during CY06. Individualized plans are developed with input from caregivers and the members' treating physicians. Case management manages "alternative benefits." In selected cases where both Blue Cross and the member will benefit, we can coordinate health care arrangements outside the subscriber contract. This is done to cover a particular service when the clinical situation suggests the service would provide the most cost effective means of treatment.

Program Summary: Outreach calls are made to members in order to assess their needs and determine if they would like to participate in our program. If the member agrees, a detailed health assessment is performed which takes approximately 30-45 minutes. At this time health related goals are formed with the input from the member. An introduction packet which includes a letter, brochure, consent form and appropriate educational materials are sent to the member.

The next step is to contact the member's provider to gain additional input regarding health goals and education or resources which would be beneficial to the member. A fax which includes a medication list and a summary of the areas we will be working on with the member is sent prior to attempting phone contact with the physician. We reimburse physicians $50 for the telephonic consult in order to elicit his/her input.

Telephonic education and coaching continues in order to move members toward completion of their health goals. Goals may need to be modified. Discharge from the program takes place when the member has completed their goals. Average length of stay in the program is 4-6 months. At the completion of the program, a discharge letter is sent to the member. This letter includes the name and phone number of their case manager in case there are any questions or if they need to contact him/her again in the future. Ten days later a satisfaction survey is sent.

Our 2006 Case Management Satisfaction Survey results show 97% of the respondents believed they had a "good to excellent" experience, and 93% believe that the education they received helped to improve their health habits. For calendar 2006, we realized $0.24 per member per month in savings for these members.

Collectively, during CY06 Blue Cross touched 118,000 members through one or more of the acute, chronic and catastrophic illness programs described above.

Q. Are all of the programs you described above available to Direct Pay members?

A. Yes.

Q. Please describe what Blue Cross is doing to address the issue of affordability in regards to provider contracts.

A. Blue Cross contracts with physicians, providers, facilities and a pharmacy benefit manager with the goal of obtaining discounts which will reduce our overall claims expenditure. In an effort to maintain market competitive physician fees and address affordability, Blue Cross reviews our contracts and fee schedule annually with the goal of maintaining the most reasonable fee schedule and discounts possible, encouraging cost effective utilization, addressing the underlying cost of healthcare and resulting in simple and effective administrative processes.

Blue Cross made selective modifications to its physician fee schedule in the second quarter of 2007. In an effort to maintain market competitive physician fees and address affordability, Blue Cross did not extend an aggregate physician fee increase in 2007.

The hospital contracts that are due for renewal in 2008 and 2009 will be closely evaluated, and Blue Cross will seek to negotiate an aggregate lower rate of increase. Blue Cross will continue to negotiate the best discounts reasonably possible from hospital charges. Keep in mind all of our subscribers including our Direct Pay subscribers enjoy the benefits of our negotiated discounts when they pay for hospital and physician services falling within their deductible responsibility. Moreover, Blue Cross through the Blue Cross Blue Shield Association is able to realize savings through negotiated discounts from hospital charges nationwide. The current savings associated with the current discounts for this out-of-state hospital program amount to $200,000,000 on an annual basis corporate-wide. Direct Pay subscribers also directly benefit from these arrangements.

Blue Cross continues to promote the establishment of Blues Distinction Centers of for Specialty Care in Rhode Island to reduce the migration of members to institutions located outside of the state. As a result of this program, we anticipate a reduction in post-surgical complications at these designated hospitals. Structure, process and outcomes are measured and weighed to earn the designated distinction. Currently, two hospitals have qualified for cardiac care. In addition, three hospitals are in the process of applying for distinction for rare cancer care. While we have found no hard data to date which identifies specific savings, it is our understanding that these savings do exist. If qualification for the distinction is based on quality, it is expected that better outcomes with fewer post-surgical complications will save money.

Q. Please describe what Blue Cross has done to respond to the principles enunciated by the OHIC regarding enhancing primary care.

A. Of note Blue Cross has taken two major steps in 2007 to respond to the principles enunciated by the OHIC regarding enhancing primary care. The first was an aggressive fee schedule plan that will, over three years, closely align primary care physician ("PCP") reimbursements in Rhode Island with the reimbursements of PCPs in Massachusetts. Blue Cross has also taken a very active role on the steering committee of the Primary Care Stakeholders group, a group created by the OHIC, which is designed to create new programs that change the healthcare delivery system to better support primary care. Our intent is to align our advanced medical home/ pilot project with that of the statewide stakeholders group.

1. PCP Fee Schedule: Blue Cross recognizes the importance of the primary care physician and is planning significant increases in reimbursement to primary care physicians over the next several years, which will bring primary care physician reimbursement to parity with the reimbursement levels in Massachusetts (targeting the same percentage of regional Centers for

Medicare & Medicaid Services ("CMS") fee schedule). In addition to fee increases, we continue to provide funding for electronic health records through the Quality Counts program and are providing funding to Electronic Health Records of Rhode Island ("EHRRI"). We recognize the value of the PCP practice and are providing significant support to ensure financial stability and practice efficiency.

2. Chronic Care Sustainability Initiative ("CSI") Pilot: We expect to have 20 to 30 PCPs involved in the CSI pilot program over a two-year period. Although the details are yet to be finalized, we anticipate payment on a capitated basis, based on number of members each payer has in the selected PCP practices. Measures of success of the program will include improved patient satisfaction, improved provider satisfaction, reduced inpatient/emergency room utilization, and improved outcomes. The goal of this project is to align chronic care improvement goals and financial incentives for the delivery of high quality chronic illness care. This will be accomplished through primary care practice redesign to incorporate the elements of the "Advanced Medical Home/Chronic Care Model" of care. These elements include a host of activities that are rarely seen in the typical practice today, such as: better use of non-physician team members, integration of behavioral health into the primary care practice, enhancements to information systems, links to effective community resources, modern self-management support, group visits, "brown bag" medication review and electronic "virtual" visits.

It is also important to note that in addition to the above program, in 2006 Blue Cross responded to the concerns of the primary care community regarding payment for after-hours care by increasing our reimbursement for the after-hours code 99050. Other payers have not followed suit. It is our belief that strong support of after-hours access will lead to reductions in inappropriate and expensive emergency department utilization.

Q. Has Blue Cross recently been involved in any pay for performance contracting?

A. Yes. Blue Cross has been involved in pay for performance ("P4P") contracting with a number of PCP groups over the last few years. These programs involve creating contracts that incentivize doctors to provide high quality, cost effective care, which is measurable. This activity has expanded over the last year, with more dollars at stake and more physicians involved in our programs. Examples of P4P measures include, but are not limited to:

- use of generic drug prescribing;
- frequency of electronic prescribing;
- childhood immunization scores;
- evidence based care of patients with diabetes; and
- discussions with members regarding end of life care/advance directives.

Q. What is Blue Cross doing in the area of increasing the usage of health information technology?

Blue Cross continues to support the adoption and implementation of fully functional ambulatory electronic health records ("EHR") into physician practices in Rhode Island. Many national studies over the last several years support the concept that widespread use of EHRs lead to improvements in quality of care and patient safety while at the same time reducing the overall cost of care. Examples of our support for the adoption of EHRs include:

a.) *Quality Counts* – Our Pay for Performance program which is designed to incentivize PCPs to purchase, implement, and utilize EHRs in their practices, continues to evolve. We now have a total of 55 physicians with signed contracts, and are in the process of signing an addition 35, which will mean a total of 80 contracts by the end of this year.

b.) Blue Cross' contracts with two large primary care groups in Rhode Island include incentives to implement EHRs into their practices. Some physicians have successfully implemented the EHR's into their practices and others are at various stages of active implementation. We anticipate 170 physicians will fully implement EHR's by the end of the year.

c.) *Electronic Health Records of Rhode Island ("EHRRI")* – During 2006, we continued our financial commitment by giving EHRRI $550,000 ($200,000 for infrastructure and $350,000 for physician EHR purchase).

d.) *RI Quality Institute ("RIQI")* – This organization, along with the Rhode Island Department of Health, has taken the lead in the development of the statewide Health Information Exchange. We are very much involved with the activities of RIQI. Our Chief Executive Officer, Mr. James Purcell, is a major participant on their Board of Directors, and we support this group's activities financially with the largest annual contribution of any stakeholder.

Q. Please describe Blue Cross's role in advocating for Health Literacy.

A. We are a primary sponsor of The Rhode Island Health Literacy Project. We worked with the group to develop the following processes to promote health literacy:

- Check-up List: The objective is to develop this list to help prepare patients to get the most from their visits to the doctor, minimizing medication errors and improve patient's understanding of treatment instructions. This checklist has been launched in both English and Spanish to the Rhode Island Health Literacy web site. www.RIHLP.org.

- Medication Safety Brochure: This brochure was developed to educate consumers on how to use medication safely. Approximately 1100 have been distributed. They are available in English and Spanish.
- Advance Directives: Blue Cross reimburses our network providers when they have discussions with members regarding advance directives. We made efforts to communicate this to all of our physicians. For our Medicare Advantage members the number of discussions increased by 2,378 from CY 05 to CY06.

Q. Do the programs you have described regarding physician/hospital contracting, encouraging primary care and EHR directly benefit the Direct Pay population?

A. Yes. These programs benefit all subscribers, including Direct Pay.

Q. Please describe what Blue Cross is doing to address the rising costs of radiology services.

A. As we indicated last year, it has been recognized nationally and locally that radiology is a leading healthcare cost driver. This observation has not changed and we are in the process of implementing the radiology management program that consists of two elements.

Provider Privileging Program: Our members will have access to radiology services performed by appropriately qualified staff and equipment that meet nationally accepted standards. Through the elimination of sub-standard radiological machines from the Blue Cross network; the establishment of credentialing criteria for the testing and reading of radiological procedures; quality will improve resulting in fewer duplicate tests. This project is currently underway and is expected to be completed by December 2007.

Prior Authorization Program: The goal of this initiative is to educate physicians regarding the established guidelines for appropriate use of high-end imaging while at the same time reducing the number of clinically inappropriate studies performed. In addition, this program will allow us to accurately monitor and track the high end imaging ordering practices of our network physicians. Beginning January 1, 2008, prior authorization will be recommended for high-end radiology services. If prior authorization is not obtained, the services will be reviewed for medical necessity prior to payment of the claim. Year one total savings based on Vendor RFP responses are estimated to be between $5 and $6 million. Implementation of this project is underway.

Q. Please describe what Blue Cross is doing to address the rising costs of pharmacy services.

A. Blue Cross has several programs designed to address the rising costs of pharmacy services. These include:

Specialty Pharmacy Program: Specialty drugs are high-cost injectable, infused, oral or inhaled medications that typically result from advances in drug development research, technology, and design. They have been the fastest growing segment of drug spending. At the current growth rate, it is anticipated that specialty drug spend will double over the next four years, accounting for more than 25% of all outpatient pharmacy spend by 2008. To address the challenge of how to manage the usage of these drugs to realize treatment potential at a cost that ensures patient-appropriate access, Blue Cross will begin to direct specialty drug volume through a limited distribution network. Specialty pharmacies provide cost savings as well as enhanced clinical management of the patient.

Specialty drugs are best identified by their features. If a drug has some or all of the following features, it may be included in the specialty pharmacy benefit:

- It treats chronic or long-term diseases that have little or no alternative therapies
- It targets underlying causes and conditions of a disease, and doesn't just relieve symptoms
- It requires customized clinical monitoring and patient support to reduce the risk of undesirable outcomes and/or the potential for serious side effects
- It requires temperature control, special handling, or drug administration training
- It costs more than $500 per prescription

This initiative will maximize opportunities to reduce the unit cost of the drugs, improve the clinical management of specialty medications, ensure appropriate utilization, and remove coverage and reimbursement inconsistencies between pharmacy and medical benefits.

Provider Profiling: As part of the ongoing program described earlier, Blue Cross Medical Directors provide educational feedback to physicians based upon periodic analysis of key practice indicators. This program has been expanded to include relevant prescribing information to ensure that doctors are utilizing appropriate and cost effective medication therapies.

Blue Cross has established a clinically based education program focused on increasing awareness of appropriate use of first generation antibiotics amongst providers. Blue Cross utilizes a retrospective review program which evaluates the prescribing of antibiotics and whether or not specific physicians could improve their prescribing practices in this regard. This clinically based education program "reminds" doctors to prescribe antibiotics appropriately, using first generation medications before moving directly to more costly antibiotics.

Member Generic Voucher Program: Blue Cross has a generic voucher program which targeted members who were filling prescriptions for brand name drugs that had a generic equivalent available. The member receives a letter advising him/her that there was a less expensive generic equivalent available. The member also receives a coupon or voucher which allows him/her to obtain a one month's supply of the generic at no cost. Through August of 2007, approximately 64,000 letters were distributed, with approximately 14,000 (22%) members utilizing the coupon to obtain a generic equivalent. Through the second quarter of 2007, Blue Cross realized approximately $371,000 in savings of which $99,000 were savings directly related to dollars members would have had to pay in the form of co-payments.

MedVantx Pilot Program: Blue Cross continues its partnership with a company called MedVantx to install ATM-like machines known as Sample Centers in physicians' offices across the state. The Sample Center facilitates dispensing of a free 30-day sample of generic medications. Participating physicians receive the Sample Center in their offices at no cost. Blue Cross pays an administrative fee to MedVantx and also pays for the cost of the claim. Currently, there are 36 sites installed with 213 providers having access to generic samples. On average, there are 1,300 samples dispensed per month. While Blue Cross continues to roll out the MedVantx Program to interested participating physicians, there will also be an evaluation of key measures associated with the value of this program to ensure that the primary objectives are being met. The MedVantx Program increases the dispensing of generic drugs and decreases the utilization of brand name medication leading to a reduction in the overall drug expenditures and a reduction in member's out-of-pocket expenses. Our overall generic dispensing rate is 60%.

Over the Counter ("OTC") Option Program: The OTC Options Program is a voluntary program, designed to communicate to our members that OTC medications offer a safe, effective,

and lower-cost alternative to many brand-name drugs. For example, OTC loratadine (Claritin) is generally lower cost than other drugs used to treat allergies such as Allegra, Zyrtec, Clarinex, or Singulair. Let's say the average cost of loratadine is $6 versus the branded drug cost of $80 per month. If a HealthMate Coast–to-Coast Direct member were to fill a prescription for Clarinex, their copayment would be 50% or $40 versus just $6 if they used OTC loratadine. Participants of this program are able to receive the OTC medication at no charge for a period of 12 months. Savings for this program for May and June 2007 were approximately $68,000, of which approximately $11,000 was realized by our members.

Q. Are the corporate-wide savings you alluded to above for programs and initiatives relevant to the Direct Pay class?

A. Yes. All of the programs are applicable to Direct Pay and should benefit the affordability of Direct Pay rates.

Q. What is Blue Cross doing to address fraud and abuse?

A. Blue Cross recognizes that fraud is a growing problem in today's healthcare system. The National Healthcare Anti-Fraud Association estimates that between 3% and 5% of healthcare expenditures were lost to fraud in 2003. At Blue Cross the anti-fraud activities are the responsibility of the Special Investigations Unit ("SIU") within the Legal Services division.

The SIU detects, corrects, and prevents fraud, waste, and abuse for all lines of business. The goals of the Blue Cross Anti-fraud Program are (i) to reduce the amount of money lost due to fraud, (ii) to lower the costs for employers and consumers, (iii) to increase patient safety, and (iv) to generate greater cost containment in the healthcare delivery system in the future. The SIU uses sophisticated fraud detection software programs, which analyze billing and trends and

compares peer utilization trends to detect potential cases of fraud and improper coding. As a result:

- 136 potential fraud cases were opened and investigated in 2006
- 141 cases were closed in 2006 (includes some cases opened in 2005)
- 14 cases were referred to law enforcement (RI Attorney General or US Attorney)
- 1 case was referred to the RI Board of Medical Licensure and Discipline
- $229,591 total savings in 2006